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S E C R E T SECTION 01 OF 02 RPO DUBAI 000075

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E.O. 12958: DECL: 2/10/2019
TAGS: [PGOV](#) [PREL](#) [ECON](#) [KDEM](#) [IR](#)
SUBJECT: IRAN REGIONAL PRESENCE OFFICE - WINDOW ON IRAN - FEBRUARY
10, 2009

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CLASSIFIED BY: Ramin Asgard, Director, Iran Regional Presence
Office - Dubai, DOS.

REASON: 1.4 (b), (d)

11. [S/NF] Larijani's Speech at Munich Security Conference Calls
for Strategy Change: In his speech to the conference on 9
February, Iranian Majles Speaker Ali Larijani listed the
failures of US and Western strategy on a wide array of issues,
but welcomed the opportunity for a strategic reset under the new
US administration. Larijani welcomed Special Envoy Mitchell's
visit and his willingness to listen and appreciate the cultural
context of the region. He added that the time for unilateralism
and domination by the West of the East is over. Turning to the
Iranian nuclear case, he declared that nuclear weapons are not
part of Iranian defense doctrine and possession and use of all
WMDs to violate Islamic principles. Calling for a change of
strategy and not just tactics, he noted that the "carrot and
stick" policy is obsolete and irrational, and that continuing it
would be a step in the wrong direction. He then declared that
Iran is ready and able to work in cooperation with other
countries towards comprehensive peace and stability in the
region. He added that America had demolished many bridges over
recent years that the new US administration can reconstruct, but
that this reconstruction would require "a new and pragmatic
strategy based on mutual respect and fair behavior, and not
repeating the old carrot-and-stick statements of the past."
Comment: Without question, Larijani, a regime stalwart close to
Supreme Leader Khamene'i, was delivering the official Iranian
position on these issues as authorized by Khamene'i. (Over the
past 24 hours, the essence of this "strategic, not tactical
change" message has been picked up by President Ahmadinejad.
This IRIG approach places the ball in the US court to take
concrete actions to distinguish the new administration's
strategic vision from past approaches.) Larijani's statement of
Iran's announced readiness to work with "other countries" is
vague, but leaves out the perennial coda which IRIG figures
usually attach to this statement - "except Israel". Our sense
is that this is an intentional and not insignificant omission.

12. [S/NF] Khatami Finally Enters Presidential Race: As detailed
further in RPO Dubai 71, Seyyed Mohammad Khatami, former
President of Iran from 1997-2005, has formally entered the race
for president. With elections swiftly approaching (June 12)
Khatami will need to work hard to convince voters his second
tenure as president would turn out differently than his last.
Twenty million-plus voters placed high hopes in Khatami in 1997

and 2001, when he won landslide victories featuring 70 and 72 percent majorities. His inability to translate this massive public mandate into real and lasting change left many disillusioned, particularly those now in their late 20s and early 30s who breathlessly turned out for Khatami as a harbinger of a Tehran Spring. Such lower expectations may actually enhance Khatami's ability to govern effectively, particularly if he can pull in expected support from technocratic and traditional conservative elements deeply opposed to another Ahmadinejad term. Moreover, voters generally acknowledge that Khatami provides a far more palatable regional and international image of Iran than the bellicose and zealous Ahmadinejad. However, many of the key factors that will shape the outcome of this race, including the final list of candidates, remain unclear.

13. [C/NF] Iranian Real Estate and Construction Sectors in Pronounced Downturn: Iranian visa applicants in Dubai have alternatively described the Iranian economy as somewhat "broken" and "sluggish." Three owners of a tool store in Tehran said their business has dropped 30 percent in the past two months; they attributed their slowing sales to lower oil prices, the decline in Iran's construction market, and exchange rate fluctuations. They alleged that Iranians are becoming hesitant to spend their money and, as real estate had been the primary investment vehicle in Iran, that sector is suffering. An Iranian real estate agent and a businessman in the construction industry both said that real estate prices are down 30 percent. The tool store owners and the businessman anticipate a downturn of at least a year; they all added that uncertainty over the outcome of the presidential election is contributing to Iran's economic malaise. Comment: Iran's real estate market soared in recent years. Visa applicants last fall maintained that real estate prices had leveled off, but not begun to drop. Now, dropping real estate prices are likely to make Iran's well-to-do-and all those who had purchased property - more

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attuned to Iran's economic downturn. That our interlocutors connected Iran's economic troubles to the election underscores the importance of the economy in the June presidential election.

14. [S/NF] AN Advisor Lauds Warm Turkey-Iran Ties: A Dubai-based Iranian political analyst who participated in the World Economic Forum in Davos earlier this month observed that Mojtaba Hashemi Samare, a close advisor of Ahmadinejad, appeared to be on very good terms with Ali Babacan, the Turkish Foreign Minister. According to our contact, the two greeted each other "old friends" and spoke privately for several minutes before Samare began addressing the assembled lunch audience. Samare also directly addressed Babacan at the beginning of his remarks, thanking him for his attendance and highlighting good relations between Iran and Turkey, countries he deemed "natural allies." In his speech, Samare repeated Ahmadinejad's recent calls for the United States to "apologize" to Iran for historical grievances. Samare reacted defensively to a comment during the question and answer session from an Iranian attendee who noted that if Tehran is serious about engaging on the basis of "mutual respect," Iranian leaders should also immediately tone down the rhetoric and cease orchestrating demonstrations led by chants of "Death to America."

15. [S/NF] Cultural Affairs Working Group - Now May Be the Time: Given the current state of Iranian skepticism regarding the intentions of USG people-to-people engagement measures, which they maintain are merely cover for velvet revolution plans, numerous IRPO contacts contend the only way forward is to take measures to depoliticize and demystify exchanges and other cultural diplomacy initiatives. Based on our discussions with a range of Iranian contacts and a close reading of Iran's domestic

media reaction, if the policy conditions are right, this would be the ideal time to roll out the Cultural Affairs Working Group proposal. This non-governmental, bipartisan working group including representatives from the academic, scientific, artistic, and athletic communities in both countries would meet to vet and streamline the exchange process. Such a group would greatly reduce risks to participants and wasted resources plaguing current arrangements. As the badminton team's recent experience clearly showed, without at least some level of explicit official buy-in from the other side, even the least threatening exchanges can easily go awry. As we approach the planned trip of the USA Wrestling Team, this is a perfect time to set up this mechanism and test the good will of the Iranians through its performance on this important exchange.

¶6. [C] Film Remains A Key Vehicle For Cultural Engagement: A prominent Iranian film producer told us that he and renowned Iranian director Darius Mehrjui were planning to make a film in the U.S. this spring but would not announce shooting publicly because of the current political sensitivities in Iran over relations with the U.S. Although IRIG decision making regarding anything related to the U.S. had become more ambiguous and uncertain, he said that in the prevailing climate, it was unlikely that Iranian censors would be favorably inclined toward this film. Set in Atlantic City, the film would be the story of a Muslim immigrant who finds work in one of the city's casinos. He predicted, however, that the presidential election would bring about a positive change in Iran because of the intense popular resentment of Ahmadinejad and the repression of artistic and other freedoms. Like other Iranian film makers we have met, he said film and cooperation between the U.S. and Iranian film industries had great potential for promoting good will in each country. In an aside, another producer present at the meeting told us that senior officials at IRIB had quietly expressed interest in promoting these cooperative efforts. Comment: This is one of several recent but separate efforts we have heard to promote U.S. and Iranian cooperation in the film community. We agree that collaboration between film makers, whether documentaries or feature films, can help to reach large audiences in Iran, delivering positive messages about the U.S. We are looking at ways we might facilitate some of these contacts.

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